Helpdesk Research Report: Estimating the 'legitimate' percentage of annual military expenditures

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Query: Identify frameworks to estimate the 'legitimate' annual percentage of expenditure spent by different states on the military, which may vary according to issues such as history, geography, politics and defence needs.

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1. Overview

There are no frameworks that estimate a ‘legitimate’ annual percentage of military expenditure for countries. Legitimacy is often highly contested and arms-importing and -exporting countries can differ, quite significantly, in their opinions on whether an arms transfer is legitimate and justified, or not. An internal needs assessment may outline different priorities compared to an external needs assessment, and in many cases it would be costly and difficult to undertake an external needs assessment. Without an externally verifiable needs assessment and an agreement on legitimacy it is not possible to identify and then quantify illegitimate arms deals and compare them to total military expenditure.
To estimate legitimate annual percentages of military expenditure, a better approach may be a case-by-case approach: define and agree on verifiable criteria for a legitimate arms deal; identify which deals fail these criteria; and then estimate those as a percentage of overall military expenditure. This report provides suggestions for what could make up such criteria.

The first part of this report looks at an approach that focuses on the process involved in military expenditures. With this approach, in cases when the military expenditure process is undertaken correctly, military spending would be considered legitimate. The second part of this report looks at a number of factors that have been linked to military expenditure. There does not, however, seem to be a comprehensive framework that assesses legitimacy based on such factors and it is likely that any framework based on them would be questionable.

**The ‘process’ approach**

Several experts highlight the value of an approach that defines legitimacy as dependent on the process of military spending (e.g. Omitoogun 2006a; Perlo-Freeman expert comments). Military expenditure is legitimate where there are good governance practices and sound financial management (ibid). This can include a number of crucial steps such as strategic defence analysis and assessment, determining what is affordable, allocating resources and using those resources effectively and efficiently (Omitoogun 2006b).

It may be possible to confirm that expenditure is legitimate, through examining the process by which military expenditure takes place, and the degree of transparency and accountability in decision-making processes. Expenditures are likely to be legitimate where there have been an appropriate needs assessment; good levels of transparency; democratic process and accountability; contestability of funds; and an absence of corruption (Perlo-Freeman expert comments). A benefit of the process approach is that it can help developing countries justify to their public and the international community their need for military expenditure. It can also reduce the level of actual or perceived political interference, by foreign governments in the domestic affairs of arms-importing developing countries.

**Other potential determinants of ‘legitimate’ military spending**

While the process approach may well be the most valid, there are a number of determinants that could be used to assess whether military expenditure is justified. There has been interest in using GDP as a relative measure – countries with military expenditures which are, say lower than 4.5 per cent of GDP would be legitimate. However, several authors (e.g. MacDonald 1987; Perlo-Freeman expert comments) dismiss the concept of an arbitrarily selected percentage of GDP as a universal measure of an appropriate, or in fact legitimate, level of military expenditure. Countries have varying contexts and military spending translates into capacity differently, depending on the country and its existing capacity and environment. At the same time, where military expenditure as a percentage of GDP is greatly different from the average of similar or neighbouring countries, this can suggest that a country is spending too much or too little on military expenditures. Some arms-importing countries also use social spending as a percentage of GDP as a qualifier for arms trades: if a country has education and health spending over, say three per cent of GDP, then arms deals would be considered permissible.

Military spending that is off-budget may be considered illegitimate. When countries spend money on military expenditures that do not correspond to an approved budget this can negatively impact other government expenditures and indicate a lack of commitment to public expenditure management.
principles. At the same time, off-budget expenditure can be due to a number of reasons including weak institutional capacity to foresee needs or a sudden event which requires an extraordinary military response. Off-budget expenditure does not necessarily connote illegitimacy.

There are several challenges to conducting a needs assessment to see whether a country’s military expenditures are appropriate. As an external actor it can be difficult to assess domestic military needs. Arms-exporting country governments and arms-importing country governments may differ on what they see as domestic terrorism as opposed to legitimate dissent. It is also difficult to accurately estimate whether certain expenditures will improve national development indirectly and what is required for military ceremonial roles.

Country demographics have been shown to be correlated with military expenditure. Countries with larger size and population may spend more on military expenditure but it is likely that countries of similar size and population have different geopolitical interests and face different threats. This makes country demographics difficult to use as an indicator for legitimacy.

It might be possible to assess legitimate changes in military expenditures by the response of peers. However, in many cases, countries do not face identical threats and will not respond in a commensurate manner to changes in one type of threat.

2. The ‘process’ approach

2.1 Defining the ‘process’ approach

The ‘process’ approach, combines good governance practices with sound financial management principles and security considerations (Omitoogun 2006a). The approach is designed to focus attention on the institutional framework for both managing trade-offs between different sectors and for the effective management of the resources devoted to the defence sector (ibid).

Ball and le Roux (2006) outline the key points to look out for in relation to identifying a good process which would be made up of good governance and budgeting practices. They argue that as with other budgetary processes it is essential to give a high priority to principles of public expenditure management. These include comprehensiveness, discipline, legitimacy, flexibility, predictability, contestability, honesty, information, transparency and accountability (see World Bank 1998).

They argue that national security should not be used to justify a lower level of oversight or a lack of adherence to internationally recognised standards of public expenditure management. Defence budgets should be the result of good short-, medium- and long-term plans that are based on open and clear defence, and national security policy. All plans, programmes and budgets should be driven by clearly defined and agreed outputs. Furthermore, the defence planning, programming and budgeting process should clearly be aligned and integrated with the national public expenditure management process.

Based on this outline, Omitoogun (2006b) identifies four crucial steps:

1. Strategic defence planning: analyse the security environment; consider the constitutional and legal frameworks for military decision making; identify the challenges before the military, usually in a defence White Paper; and consider appropriate military capability.
2. **Determining what is affordable**: authorities define the financial ceiling for the military sector within the overall national economic framework.

3. **Allocating resources**: allocate resources; prepare the military budget; and defend it in parliament.

4. **Using resources effectively and efficiently**: implement the planned activities; monitor the outputs; account for expenditure; evaluate and audit outputs; and report results to parliament and the executive.

Perlo-Freeman (expert comments) comments that the process approach can be essentially an act of asking a number of key questions. The answers to these question help determine whether the expenditures are legitimate or not. Such key questions can be grouped around the following points.

- **Needs assessment**: Has the country actually made an assessment of its defence needs? Are budgeting and procurement decisions linked to this assessment?

- **Transparency**: Is the needs assessment publicly available and open to debate, with input from parliament and civil society? Is detailed information on military spending, with explanations of the purpose of the spending, publicly available for external verification?

- **Accountability**: Who has a voice in budgetary and defence policy? Do procurement decisions go through a civilian-led Ministry of Defence as part of a sound procurement process, can military chiefs make procurement independently, or does the President (or other head of the executive) make procurement agreements by fiat?

- **Contestability**: Do substantial sums of military expenditure come from non-transparent extra-budgetary or off-budget sources. If so, does this prevent a meaningful assessment of legitimacy of spending by the public?

- **Corruption**: Is there evidence of corruption being widespread in arms procurement procedures? Is there a substantial risk of corruption in the deal in question?

Basu Ray and Thorsen (2012) outline a number of key questions focused on risk assessments for arms transfers in relation to achieving development goals. These could also indicate the legitimacy of such transfers. The criteria can be summarised in the following four questions.

- Does expenditure on arms increase unserviceable national debt or divert vital and limited funds away from public services like education and health care?

- Does expenditure on arms involve or encourage corruption?

- Does the easy availability of and access to conventional arms and ammunition initiate, prolong, and aggravate armed violence and conflict?

- Do arms transfers undermine prospects for peace, and undermine the rule of law and reconciliation efforts in post-conflict environments?
For each criterion there are a number of indicators which relate to:

- the specifics surrounding the details of the actual transfer itself;
- relevant international and regional obligations and commitments (a) signed and ratified, and (b) incorporated into national laws and policies;
- history of practice and adherence to international, regional and national obligations, commitments and agreements.

Basu Ray and Thorsen (2012) emphasise that these indicators must be used on a case-by-case basis to assess each transfer request.

2.2 Benefits of the ‘process’ approach

Perlo-Freeman (expert comments) argues that the process approach offers the potential for addressing the question of legitimate defence needs as it focuses on transparency, accountability and decision-making processes themselves.

Omitoogun (2006a) argues that the process approach offers three main potential advantages to both donors and recipient countries as they try to avoid ‘excessive’ or ‘unproductive’ expenditure on the military in developing countries at the expense of the social sector and economic development. These are:

1. **Transparency**: The process approach has the potential to reveal the exact process of budgeting for the military sector, the actors involved and the kinds of trade-off made between the military and other sectors. It can show whether the level of resources allocated to the military is justifiable and transparency in the decision-making process can also reveal how reliable the data is.

2. **Accountability**: For recipient countries the process approach allows them to demonstrate to donors and their own citizens the level of military expenditure and the extent of military needs. This can be especially important where spending limits imposed by donors mean that the basic security needs of the state cannot be met.

3. **Lack of political interference**: The concern of political interference in domestic affairs of recipient countries is dealt with, as donors focus on the application of good governance principles, rather than the level of spending, to the military sector.

3. Other potential determinants of ‘legitimate’ military spending

3.1 Percentage of GDP/GNP

Following the comment from former IMF Managing Director Michel Camdessus that military expenditure should not account for more than 4.5 per cent of GNP, MacDonald (1997) studied the military expenditures of ten countries in 1994. Of the the countries, eight – Burkina Faso, Mali, Cameroon, Zambia, Zimbabwe, Tanzania, Kenya, Egypt – had military expenditures below 4.5 per
percent of GDP, Morocco’s expenditure was at 4.5 per cent and Jordan’s military expenditure above it. The study concludes that there is some justification for Morocco and Jordan’s relatively high expenditures based on strategic concern and Egypt’s expenditure is fully justified for the same reasons. MacDonald (1987), however, argues that such appropriateness of expenditure is relatively subjective. In conclusion, he rejects the validity of the 4.5 per cent of GNP threshold or any arbitrarily selected percentage of GNP as a universal measure of an appropriate level of military expenditures.

Perlo-Freeman (expert comments) also argues that an assessment based primarily on a financial measure, such as military expenditure as a share of GDP or government expenditure, is a flawed approach. This is because of the varying political, economic and security situations, and due to the imperfect correlation between military spending and military capability. That said, the proportion of military expenditure as a percentage of GDP can be a useful indicator when combined with other factors. Perlo-Freeman (expert comments) notes that the lack of a proper defence policy process is a greater concern when a country is spending four per cent of GDP on the military than one that is spending 0.5 per cent of GDP on military expenditures. Furthermore, when a country spends 0.5 per cent of GDP on military expenditure it would be hard to argue that a country is spending too much. In conclusion, military expenditure as a share of GDP works best as an indicator when used in complement with a focus on process and a country’s context.

Basu Ray (expert comments) notes that some arms-exporting countries use measures of social spending as a percentage of GDP but as an unofficial set of criteria. For example, some arms exporting countries will not export to countries that have a domestic expenditure of health and education less than three per cent of their GDP.

3.2 Off-budget spending

Omitoogun (2006b) examined the deviation between the approved budget and actual expenditure for the military sector between 1999 and 2003 in Ethiopia, Ghana, Kenya, Mali, Mozambique, Nigeria, Sierra Leone and South Africa. The deviations were highest in Ethiopia, Ghana, Kenya, Mali and Nigeria; lowest in South Africa; and quite low in Mozambique. Omitoogun (2006b) argues that this deviation can have a disruptive effect on the rest of the budget, especially in relation to service delivery, and also indicates a general lack of adherence to the principles of public expenditure management.

The author attributes the inability of countries to adhere to good practice principles to a number of potential reasons: long years of military and one-party rule; confidentiality in the military sector; the attitudes of the elite and bureaucratic inertia; strong informal processes; limited capacity and lack of political will; limited democratic experience and strong executives; weak oversight bodies; and inadequate regulatory frameworks. It would, therefore, not be possible to determine that an expenditure is illegitimate based on it being off-budget.

3.3 External needs assessments

There are a number of challenges to undertaking a needs assessment externally which can be seen through an example of a framework for a needs assessment. MacDonald (1987) puts forward a conceptual framework based on four key purposes for military expenditure: national defence, internal security, ceremonial purposes and national development roles. In relation to national defence this involves a strategic threat/ risk assessment by military planners who would generally pass on
recommendations to their political authorities. For internal security, this requires an assessment of the force needed to respond to counterinsurgency threats and other internal disturbances. MacDonald (1987) notes that there is the question of whether the real purpose for increased capacity to respond to internal security concerns is legitimate protection, or, in fact, the repression of dissent. Once these needs assessments are made there needs to be an assessment of existing forces and comparison of needs against capacity. The study notes that it is difficult, if not impossible to address issues of national development due to their complexity. For example, estimates of the indirect effects on the economy of military expenditure and overall national morale would be questionable. The study also does not identify a way of assessing ceremonial requirements.

3.4 Country demographics

Killian (1998) finds a statistically significant relationship between military spending and the two variables of country size and country population. He concludes that there may be an inherent need to arm as the size and population of a country rises.

Others would criticise the inference that larger countries necessarily need greater defence spending. For example, Plümper and Neumayer (2012) note that countries have varying geostrategic interests which would affect their defence burdens.

3.5 Peer-response to identical threats

Plümper and Neumayer (2012), whilst trying to identify defence allies who ‘free-ride’ on the defence expenditures of others, have come up with a method that can be useful in identifying legitimate spending. They assess changes in the spending of NATO allies between 1956 and 1988 in response to changes in USA and USSR military spending. For example, for the years in which the USA and the USSR both have increased their defence spending at the same rate of, say, three per cent, a NATO member ‘free rides’ if the growth rate of its defence spending is, on average in those years, less than three per cent. With respect to this, a legitimate increase in spending could be that which corresponds to similar increases in neighbouring countries. This would, however, only be the case if a country and its neighbours faced exactly the same threats. As many countries face a number of differing threats (e.g. threat of foreign invasion, insurgency, terrorism, transnational crime) it may not be possible to determine if spending is legitimate by comparing them with allies or neighbouring countries.

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